

Message Text

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PAGE 01 NEW DE 09583 01 OF 02 170915Z

16

ACTION NEA-10

INFO OCT-01 ISO-00 EUR-12 HEW-02 EB-07 COME-00 OES-03

TRSE-00 L-03 STR-04 /042 W
----- 090194

R 170610Z JUL 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 9992

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

LIMITED OFFICIAL USE SECTION 1 OF 2 NEW DELHI 9583

EO 11652: NA

TAGS: EINV, ETRD, IN

SUBJ: DRUG INDUSTRY - HATHI REPORT

REF: STATE 152818

BEGIN SUMMARY: FOREIGN PHARMACEUTICAL FIRMS FACE AN UNCERTAIN FUTURE IN INDIA BUT THE OUTLOOK IS PROBABLY NOT AS BLEAK AS LOCAL REPRESENTATIVES OF THESE FIRMS PORTRAY. THE PERIOD BETWEEN THE ISSUANCE OF THE HATHI COMMITTEE REPORT AND THE FORMAL ADOPTION OF RECOMMENDATIONS IN THE REPORT BY THE GOI HAS BEEN MARKED BY SPECULATION AND JITTERINESS IN THE INDUSTRY. THE DECLARATION OF EMERGENCY HAS COMPOUNDED THE NERVOUS STATE ALTHOUGH THE GOI IS STILL CONSIDERING WHAT RECOMMENDATIONS OF THE HATHI REPORT TO IMPLEMENT. WE RECOMMEND THAT REPRESENTATIVES OF INDIVIDUAL FOREIGN FIRMS COME TO INDIA TO STATE THEIR CASE.
END SUMMARY.

1. ON THE NEGATIVE SIDE, FOREIGN FIRMS ALMOST CERTAINLY FACE AN EXTENSION OF EXISTING PRICE CONTROLS PROBABLY BASED ON A STRICTER PRICING FORMULA THAT MAY AFFECT THEIR MARKUPS. IN A CONVERSATION
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PAGE 02 NEW DE 09583 01 OF 02 170915Z

WITH EMBOFFS, P. J. FERNANDES, SECRETARY, MINISTRY

OF PETROLEUM & CHEMICLAS, STATED THAT THIS WOULD BE THE FIRST OF THE HATHI COMMITTEE RECOMMENDATIONS TO BE IMPLEMENTED AND THAT CURRENTLY HIS MINISTRY WAS WORKING OUT THE REGULATIONS TO IMPLEMENT THIS RECOMMENDATION. THIS COULD HAPPEN WITHIN A MONTH. THE NEXT STEP IS THE ESTABLISHMENT OF PRODUCTION PATTERNS FOR BOTH BULK DRUGS AND FORMULATIONS AMONG FOREIGN AND LOCAL PROCESSORS. WITH THE RECENT ANNOUNCEMENT OF THE POSSIBLE ESTABLISHMENT OF A NEW GOVERNMENT-OWNED FORMULATION PLANT AND EXPANSION OF EXISTING FACILITIES THE GOVERNMENT ITSELF WILL BE MORE INVOLVED IN THIS END OF BUSINESS AT THE EXPENSE OF FOREIGN PRIVATE FIRMS. WE ALSO EXPECT THE GOVERNMENT TO CONTINUE TO PUT PRESSURE ON FOREIGN MANUFACTURERS TO IMPORT BULK DRUGS FROM BILATERAL TRADE AGREEMENT COUNTRIES. FOREIGN FIRMS WILL ALSO BE ASKED TO MANUFACTURE BULK DRUGS IN INDIA AND TO EXPORT A PORTION OF THE PRODUCTION THAT CANNOT BE PROCESSED INTO FORMULATIONS FOR SALE IN THE LOCAL MARKET.

2. ON THE POSITIVE SIDE, ALL GOI OFFICIALS TO WHOM WE HAVE TALKED ASSERT THAT THE INDUSTRY NEEDS FOREIGN FIRMS AND THE TECHNOLOGY THEY OFFER. FERNANDES POINTED OUT THAT IN ONE SENSE IT IS IMPOSSIBLE TO NATIONALIZE A DRUG FIRM BECAUSE ONE CANNOT NATIONALIZE CONTINUING INFLOW OF TECHNOLOGY WHICH IS THEIR PRINCIPAL ASSET. HE ALSO EXPRESSED UNHAPPINESS WITH THE TWO USSR-CONSTRUCTED PHARMACEUTICAL PLANTS BECAUSE HE SAID HE SUSPECTED THAT THE USSR WAS NOT SUPPLYING THE MOST ADVANCED DRUG STRAINS TO THESE PLANTS.

3. IN RESPONSE TO OUR INQUIRY AS TO WHETHER THE FERA COMMITTEE HAD DISCUSSED THE CASES OF FOREIGN PHARMACEUTICAL MANUFACTUREERS, FERNANDES SAID THAT THE COMMITTEE HAD BEEN SPECIFICALLY ASKED NOT TO DISCUSS DRUG CASES. THE REASONING IS THAT DILUTION IS DIRECTLY RELATED TO THE VARIOUS OTHER PROBLEMS OF THE FOREIGN MANUFACTURERS WHICH ARE OUTSIDE THE PURVIEW OF THE COMMITTEE. WHAT FERNANDES WOULD LIKE TO DO WOULD BE TO DISCUSS WITH OFFICIALS OF FOREIGN LIMITED OFFICIAL USE

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PAGE 03 NEW DE 09583 01 OF 02 170915Z

PARENT COMPANIES THE SPECTRUM OF THE FIRM'S OPERATIONS IN INDIA ON A COMPANY BY COMPANY BASIS. SUCH DISCUSSIONS WOULD COVER EXPANSION PLANS, EQUITY DILUTION, PLANNED EXPORTS, PRODUCTION LIMITATIONS ON FORMULATIONS/NEW FORMULATIONS, AND PRODUCTION OF BULK DRUGS IN INDIA. WE GET THE IMPRESSION FROM FERNANDES THAT THE GOI WOULD LIKE TO RETAIN FLEXIBILITY IN EACH INDIVIDUAL CASE SO THAT, FOR INSTANCE,

LEVERAGE OF DILUTION COULD BE USED TO OBTAIN COMMIT-
MENTS FROM MANUFACTURERS TO PRODUCE CERTAIN BULK
DRUGS AND FORMULATIONS WHICH THE GOI WANTS PRODUCED
LOCALLY. THIS SUGGESTS ALSO THAT FOREIGN FIRMS MAY
NOT BE REQUIRED TO DILUTE TO 40 PERCENT EQUITY IF THE
GOI GETS SAME THING THAT IT WANTS ON OTHER COUNTS.
THUS, HIGH LEVEL OFFICIALS OF FOREIGN FIRMS WILL NEED
TO COME TO INDIA, PERHAPS AS EARLY AS NEXT MONTH,
PREPARED TO COMMIT THEIR COMPANY ON THE WHOLE RANGE
OF ISSUES INVOLVED IN THEIR FUTURE OPERATIONS IN
INDIA.

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MRN: 1975NEW DE009583 SEGMENT NUMBER: 000002 ERROR READING TEXT INDEX
FILE; TELEGRAM TEXT FOR THIS SEGMENT IS UNAVAILABLE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, CHEMICAL INDUSTRY, DRUGS, BUSINESS FIRMS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NEWDE09583
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750247-0138
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750747/aaaabpr.tel
Line Count: 130
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 152818
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 06 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 AUG 2003 by ElyME>; APPROVED <01 DEC 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DRUG INDUSTRY - HATHI REPORT
TAGS: EINV, ETRD, IN, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006